



Republican Policy Committee

Don Nickles, Chairman Kelly Johnston, Staff Director 347 Russell Senate Office Building (202)224-2946

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The Feinstein Amendment

The Real Threat to Social Security

"In my opinion, the most serious threat to Social Security is the federal government's fiscal irresponsibility."

Dr. Robert Myers
Social Security's former Chief Actuary
and Deputy Commissioner

Opponents of House Joint Resolution 1, the Balanced Budget Amendment, are expected to support an amendment unsuccessfully offered in the Judiciary Committee by Senator Dianne Feinstein (D-CA) to specifically exclude Social Security from the calculations used to determine if the federal government's budget is in balance.

The consequence of its passage would be cataclysmic for millions of middle class Americans who are counting on Social Security to supplement their retirement income in the future. At best, the Feinstein amendment is a jobs program for constitutional lawyers who would keep the matter tied up in the courts for years, if not decades.

The Feinstein amendment is just the sort of "protection" today's seniors and tomorrow's retirees don't need. By requiring the government to ignore Social Security receipts and expenditures in balancing its books, the Feinstein amendment would threaten the future of a program on which tens of millions of Americans rely.

How Social Security Works

Consider how the government collects payroll or FICA (Federal Insurance Contribution Act) taxes and pays Social Security benefits. Social Security payroll taxes — like federal income, corporate and excise taxes — are collected by the United States Treasury. Unlike other Treasury receipts, however, FICA revenues are used to back monthly Social Security checks. The House Ways and Means Committee's *Overview of Entitlement Programs* [the "Green Book"] describes the transaction this way:

"The trust funds are given IOUs when [FICA] taxes are received by the Treasury, and those IOUs are taken back when the Treasury makes expenditures on the program's behalf. This handling of [Social Security] finances goes back to the inception of the program and has not been altered by the inclusion or exclusion of the [Social Security] trust funds in or from the federal budget." [1994 *Overview of Entitlement Programs*, p. 91]

Throughout most of the program's history, the Treasury has collected more in FICA taxes than it has needed to pay Social Security benefits. The "trust funds" are thus stockpiling IOUs from the Treasury and are expected to do so for nearly two more decades. This year, for example, the Congressional Budget Office (CBO) estimates that Social Security receipts will exceed outlays by \$69 billion. Over the five-year period from 1996-2000, CBO projects that Social Security will take in \$421 billion more than it will spend.

The Feinstein amendment would require Congress, when it hammers out annual government budgets, to pretend that these billions of dollars simply do not exist. The Treasury would continue to collect hefty payroll taxes from working Americans, but these revenues could not be counted when determining whether the federal budget was in balance.

What the Feinstein Amendment Would Do

The Feinstein amendment (as it was offered in — and tabled by — the Judiciary Committee) would add a new sentence at the end of section 7 of H.J. Res. 1, the Balanced Budget Amendment. The California Senator's amendment reads:

"The receipts (including attributable interest) and outlays of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund shall not be counted as receipts or outlays for purposes of this article."

In order to bring revenues into line with expenditures under the bizarre accounting system necessitated by this amendment, Congress would have to choose from at least four major options, each of which would hurt the economy and imperil the Social Security system.

Feinstein Option One: Run Government Surpluses

The first option would be for the federal government to run annual surpluses — collecting *more* in taxes than it spends — equal to the value of government securities purchased by the "trust funds."

This year, for example, the Social Security "trust funds" will "buy" \$69 billion in government securities from the Treasury. If a balanced budget amendment with the Feinstein provision were in effect, the Treasury would have to make believe that it never received this \$69 billion. Thus, Congress would have to raise taxes or cut spending by \$69 billion *just to keep the deficit at its current level* (\$176 billion, according to CBO's most recent estimate). In order to "balance" the FY 1995 budget under the Feinstein amendment, the government would have to eliminate the \$176 billion deficit and then come up with an additional \$69 billion.

The Feinstein amendment thus would make it *harder to achieve a balanced federal budget*, unless Congress resorted to one of the other options described in this paper. Ironically, many advocates of the Feinstein amendment oppose the Balanced Budget Amendment because they believe that it would require tough decisions on cutting federal

spending. The Balanced Budget Amendment with the Feinstein provision could actually make these decisions tougher than would an amendment without that provision.

Feinstein Option Two: Expand the Definition of "Social Security"

While Congress is unaccustomed to passing balanced budgets, much less running surpluses, the Feinstein amendment would present lawmakers with another option, one with which it is more familiar — spending taxpayers' money.

The Feinstein amendment would effectively create two federal "budgets:" one bound by rules of sound fiscal discipline and another in which Congress could spend as it pleased. The former budget would include all non-Social Security programs; the latter, all programs defined as "Social Security."

It wouldn't take long before Congress started to redefine its favorite programs as "Social Security." For example, the Supplemental Security Income program (SSI), a welfare program for indigent aged, blind and disabled people, is administered by the Social Security Administration, though it is financed by general revenues rather than through the payroll tax.

Spending on SSI has grown rapidly in recent years, and the program has been plagued by scandal. There has been a sizable increase in the number of alcoholics and drug addicts who qualify for benefits on the basis of their addiction. Critics also say that the steep rise in the number of children on the SSI rolls is due in large part to the mischaracterization of behavioral problems as "disabilities." And many legal aliens have begun to collect monthly SSI checks when their sponsors — usually family members — withdraw financial support.

A Balanced Budget Amendment would force Congress to take a hard look at the SSI program and institute reforms to control costs. But if the Feinstein provision were added to the amendment, Congress could take the easy way out by using the FICA tax to pay SSI benefits. Other welfare programs — like Medicaid, food stamps, and scores of others — also could escape reform by being reclassified as "Social Security." This would drain resources intended for seniors and impair government's ability to pay retiree benefits.

Feinstein Option Three: Create a Social Security Deficit

The Feinstein amendment would require only part of the budget to be in balance — non-Social Security spending would have to equal non-Social Security revenues. But the Feinstein amendment would permit part of the budget to be wildly out of balance — the part that seniors rely on for their monthly Social Security checks.

Because Congress would be prohibited from counting revenues from FICA taxes as government receipts in determining whether the budget is balanced, lawmakers could drastically reduce these taxes *without increasing the deficit*. Increases in income taxes, however, would reduce the deficit. Thus, even if revenues from federal income taxes were

increased by the same amount that revenues from FICA taxes were decreased, *the deficit actually would be reduced* under the Feinstein amendment's "twilight zone" accounting.

The Feinstein amendment thus would create a perverse incentive for Congress to create huge Social Security deficits in order to "balance" the federal budget. Replacing FICA revenues with other federal tax revenues would be an easy means of helping to balance the non-Social Security portion of the budget, which is all the amendment would require.

Of course, the FICA taxes would no longer fully fund Social Security benefits, threatening the program with bankruptcy. The Social Security Trustees could borrow money from the public in order to cover monthly checks to retirees, a step unprecedented in the program's history. But these Social Security deficits wouldn't matter under the Feinstein amendment. In the twisted logic of the amendment, the federal budget would be considered balanced as a matter of constitutional law, even as the federal government plunged deeper into debt, a debt that would fall on future generations.

Feinstein Option Four: Gamble With Social Security Funds

Congress could avoid these problems by changing the way that proceeds from the FICA tax are spent. Current law permits these funds to be used only to pay benefits and to purchase government securities. It also accounts for these intergovernmental transactions in a common-sense way: the Treasury is credited with the revenues not needed to pay benefits, and the "trust funds" receive an equal amount in government securities. Since the government is borrowing money from itself, this transaction has no net effect on the deficit.

The Feinstein amendment would change the way these transactions are accounted for. While the "trust funds" would continue to count their government securities as assets, the Treasury would have to pretend that it received nothing of value in return. Thus, in the bizarre world created by the Feinstein amendment, every time the Treasury issued a government security to the "trust fund," the deficit would increase, just as the government's debt increases when it sells bonds to the general public.

Since the Feinstein amendment would treat these intergovernmental transactions as it would public bond issues, Congress might stop using Social Security "surpluses" to buy government securities, and let the Social Security Trustees try their hand in the private market. They could start gambling with trust fund reserves by acquiring industries, buying up real estate, taking a chance on cattle futures or speculating on foreign currencies.

How to Save Social Security

Far from saving Social Security, the Feinstein amendment would threaten the program, driving Congress to pursue policies that would bleed the system and damage the economy in the process.

It also would tie the hands of lawmakers who want to restore the federal government to fiscal soundness. Congressional Budget Office Director Robert Reischauer, during his January 26 appearance before the Senate Finance Committee, was asked by Senator Don Nickles (R-OK) whether he thought a Balanced Budget Amendment should include exceptions for Social Security or other federal programs. Dr. Reischauer replied:

"I would say the most comprehensive treatment of the budget would be the most desirable. And what you want is a situation where all activities of the Federal Government are on the table to increase or decrease all of the time in the future. We do not know how this country is going to evolve. . . . In 1920, there was no such thing as Social Security. Now there is. Who knows what the world will look like in 2020?

"If you are going to lock something into the Constitution, you want to do what our founding fathers did, which was provide guidance, general guidance, not nitty gritty specificity, so that the amendment will have enduring value."

The best way to assure that the Social Security system will have enduring value is for government to get its own financial house in order. Rising federal debt, and the interest payments it entails, threaten Social Security and stunt economic growth. Robert Myers, Social Security's former chief actuary and deputy commissioner, has stated:

"If we continue to run federal deficits year after year, and if interest payments continue to rise at an alarming rate, we will face two dangerous possibilities. Either we will raid the trust funds to pay for our current profligacy, or we will print money, dishonestly inflating our way out of indebtedness. Both cases would devastate the real value of the Social Security trust funds."

A government crippled by debt can't keep its promises. The balanced budget amendment — without the Feinstein provision — will help Congress make good on its pledge to seniors and to millions of working Americans to preserve Social Security.

Staff Contact: Doug Badger, 224-2946